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TAGS: [PGOV](#) [ECON](#) [PREL](#) [SOCI](#) [CH](#)
SUBJECT: PREMIER STAYS THE COURSE ON REFORM, DOLES OUT PORK
TO BUY STABILITY

REF: A. BEIJING 1404

[1](#)B. BEIJING 1403

Classified By: Political Internal Unit Chief Susan Thornton.
Reasons 1.4 (b) and (d).

Summary

[1](#)1. (C) In China's version of the State of the Union address, Premier Wen Jiabao emphasized continued economic reform, balanced growth and social justice in remarks to open the National People's Congress (NPC) on March 5. Wen promised to open state coffers to fund a number of social programs to assist those left behind by reform, particularly the rural poor, and repeatedly stressed the need to fight corruption. Deputies enthusiastically welcomed Wen's pledge to oppose Taiwan independence. The Premier neglected to mention the "struggle against hegemonistic power politics" that has been a standard feature in previous years, but called for transforming the military in preparation for a "defensive IT war" and for building a "harmonious world." Ailing Politburo Standing Committee Member Huang Ju was trotted out for the opening, although he did not attend the Chinese People's Political Consultative Conference (CPPCC) plenary on March 3. At delegation meetings after the speech, NPC Deputies appeared most interested in Wen's proposals on education, the environment and rural policy, though their comments proved that the speech, by design, had something for everyone. Comment: By appealing to everyone's interests, Wen's speech appears in part to be an attempt to buy social stability, at least through the fall. Such an approach may run the risk, however, of having local officials listen only to those parts of the Premier's message that they want to hear. End Summary.

China's Political Theater Opens

[1](#)2. (C) China's annual political theater, the National People's Congress (NPC), opened amid great fanfare and pageantry on March 5. As is the case each year, the Premier's government work report -- China's equivalent of the State of the Union address -- was the highlight of the opening session. In front of 2,890 NPC deputies, the entire senior Chinese leadership including President Hu Jintao and ailing Politburo Standing Committee Member Huang Ju, the diplomatic and press corps and a national television audience, Premier Wen Jiabao reviewed the government's successes and shortcomings in the past year and laid out the path ahead for 2007. Though Wen delivered his address spiritedly, at two hours and twenty minutes it was punishingly long. For the most part, delegates politely clapped throughout, but Wen's remarks opposing Taiwan independence received enthusiastic and sustained applause.

¶3. (SBU) The Premier began by reviewing a laundry list of successes in 2006, the first year of the eleventh five-year plan. Economic growth of 10.7 percent, the fourth year in a row of growth exceeding 10 percent without significant inflation, headed the list. National revenue increased by 769.4 billion yuan, and people's living standards improved, based on a 10.4 percent increase in urban per capita disposable income and a 7.4 percent increase in rural per capita net income. Agricultural policy, particularly elimination of the agriculture tax, and funding for social programs, including increases of 39.4 percent and 65.4 percent respectively in education and health, were other noted accomplishments. Measures to enhance employment and the social safety net and steps to "strengthen democracy and the legal system," particularly the "an all out effort" to clean up the government and fight corruption, were singled out by Wen. Only by continuing to pursue reform and opening and "scientific development" can China achieve its modernization objectives, Wen said to the deputies' applause.

Areas for Improvement

¶4. (SBU) Turning to China's challenges, the Premier outlined the "shortcomings and inadequacies" in the government's work last year. First, structural problems remain in the economy, including imbalanced growth among sectors and regions. Agriculture, in particular, remains weak. Second, economic growth is inefficient, resulting in "excessive" energy consumption and "serious" environmental pollution. Wen conceded that the government had fallen short of its targets for cutting energy consumption. Third, challenges concerning

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the "people's interests" abound, including in food and drug safety, medical care, education fees and land expropriation. "Life remains difficult for many low-income people," he concluded. The government itself needs to improve, by eliminating extravagance, waste, bureaucratism, and "even abuse of power and corruption." Wen received applause by calling for "more forceful measures" to solve these problems and "live up to the expectations of the people."

The Plan for 2007: Economy

¶5. (SBU) The economy received extensive treatment in the Premier's work report, as is the norm. He repeatedly emphasized promotion of "both sound and fast" development of the economy, and the need to upgrade the "quality and efficiency" of China's economic growth by paying greater attention to energy and resource conservation and environmental protection. Another theme running throughout Wen's remarks was the need to "deepen" reform and further opening to the outside world.

¶6. (SBU) Economic highlights of Wen's speech:

-- MACROECONOMIC CONTROLS: As in previous years, Wen stressed the importance of strengthening macroeconomic regulation to prevent overheating, particularly in fixed asset investment and the real estate market. China's GDP grew by 10.7 percent in 2006, and Wen set a target of 8 percent growth in 2007.

-- EXCHANGE RATE: Wen reiterated the language in the 11th Five-Year Plan to improve the mechanism for setting the RMB exchange rate, strengthen the foreign exchange administration and use foreign reserves appropriately.

-- FINANCIAL REFORM: Beyond reporting past themes on accelerating reform in the financial system, such as deepening reform of state-owned banks, improving the rural

banking system, developing capital markets, expanding insurance coverage and strengthening financial oversight, Wen made an explicit call to "open the financial sector to foreign competition and increase the degree of openness."

-- INNOVATION/IPR: Disappointingly, Wen, speaking on promoting independent innovation, only said that China "will move quickly to formulate and implement a national strategy for intellectual property rights." The clear implication is that China, despite representations to the contrary, currently has no IPR strategy.

-- ENERGY CONSUMPTION: Wen said excessive energy consumption threatens economic growth, stating that China fell short of its 2006 target to reduce energy consumption per unit of GDP. Energy consumption dropped by only 1.2 percent per unit of GDP compared to the target of 4 percent.

-- BALANCED DEVELOPMENT AND SOCIAL SPENDING: As he did in 2006, Wen called for a balance between investment and consumption with a focus on boosting consumer demand. He also focused on increasing social spending in education, health care and social welfare.

-- RURAL POLICY: Wen continued the current leadership's emphasis on rural policy, stating that developing modern agriculture and building the New Socialist Countryside would again be one of the government's top priorities. According to Wen, the government will spend 391.7 billion yuan on agricultural issues in 2007, an increase of 52 billion yuan.

Buying Harmony

17. (SBU) Reflecting continuing top leadership concerns about social stability, Premier Wen as expected gave increased attention this year to social programs and "livelihood" issues, particularly for the rural poor, devoting nearly a quarter of his 35-page speech to the topic of "promoting the building of a harmonious socialist society." Government policies to increase social fairness and justice were highlighted. Some main themes:

-- EDUCATION: Premier Wen called education a "bedrock" of China's development, emphasizing that fairness in education is an important component of social fairness. The government will completely stop collecting tuition from all rural students receiving compulsory education, affecting 150 million rural households. Some 223.5 billion yuan will be spent on rural education, up 39.5 billion yuan. A national scholarship and tuition assistance program for undergraduate institutions, vocational colleges and secondary vocational

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schools will be implemented. Free education will be provided to students majoring in education at certain teacher colleges.

-- HEALTH CARE: Wen promised to expand rural health care, including by promoting a new rural cooperative medical care system, which will be subsidized to the tune of 10.1 billion yuan, an increase of 5.8 billion yuan. A new type of urban health care service system based on community facilities will be launched, as will trials of basic medical insurance for urban residents.

-- SOCIAL SAFETY NET: The government will spend 201.9 billion yuan to strengthen social safety nets, an increase of 24.7 billion yuan. Promises included improving the basic old-age pension system for enterprise employees; expanding trials to fully fund personal old-age pension accounts; and improving basic medical, unemployment and worker compensation insurance. The government will speed up establishment of a social safety net for migrant workers in cities, and create a nationwide basic minimum cost of living allowance system for rural residents.

-- PRODUCTION SAFETY: The government will reduce the number of large-scale accidents and improve production safety, including in coal mines. The Premier also outlined measures to ensure food and drug safety.

-- SOCIALIST DEMOCRACY AND LEGAL SYSTEM: The "most important aspect" of building a harmonious society is strengthening socialist democracy and the legal system to promote social fairness and justice, Wen claimed. China will "actively yet prudently" proceed with political reforms, expanding democracy at the community level and enhancing government transparency. Governments at all levels must accept the oversight of People's Congresses, the CPPCC and even the news media and general public. Hinting again at the need to fight corruption, Wen said the government will "tighten" checks and oversight to make sure that powers bestowed on the government by the people are used for the people.

-- GOVERNMENT REFORM, ANTI-CORRUPTION: The report addressed in detail the need to carry out government reform with an eye to fighting corruption. The objective is to build a "just, transparent, hard-working, efficient, honest, upright and clean government," with which the people are satisfied. Wen pledged to "vigorously improve" the government's "work style," criticizing the extravagance and waste in some government bodies, particularly construction of lavish official office buildings.

National Defense

¶8. (SBU) The Premier commented briefly on national defense near the end of his speech, making no mention of the 17.8 percent increase in 2007 defense spending that was announced the day before (Ref A). A solid national defense system and powerful people's army is a "strategic task in socialist modernization," Wen stated. He called for transformation of the military from one trained for mechanized warfare to one with an ability to fight a "defensive IT war" and said the government will intensify research and production of advanced weaponry and equipment.

Taiwan

¶9. (SBU) Delegates enthusiastically welcomed Wen's comment that China would unite with Taiwan compatriots to firmly oppose "all forms of secessionist activities such as calls for Taiwan independence through legislation." At the same time, China remains committed to the basic principle of "peaceful reunification and one country, two systems," and to "promoting China's peaceful reunification under the changed circumstances." He pledged to expand cross-Straits exchanges and cooperation, promote resumption of direct links for postal, air, and shipping services and trade. China will continue to step up dialogue and exchange on the basis of the one-China principle with all political parties in Taiwan that advocate development of cross-Straits relations. Wen closed by saying that, with the efforts of all Chinese people including Taiwan compatriots, "complete reunification of China will be realized."

Harmonious World

¶10. (SBU) Wen concluded with a section on foreign policy, stressing the familiar theme of promoting a "harmonious world," which he said reflected common interests and aspirations around the globe. China will adhere to the path

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of peaceful development, ensuring that it can take advantage of a "favorable external environment" in order to carry out domestic development. He made no mention of the previously standard phrase of resolutely struggling against "hegemony and power politics."

Delegates' Next-Day Reactions

¶11. (C) Following the speech, provincial delegations have been meeting the last two days at locations across Beijing to discuss the Premier's report. Meetings held by Henan, Zhejiang, Hainan and Liaoning provinces revealed three themes. First, Premier Wen's report clearly had something for everyone. In each meeting, delegates used the Premier's speech to justify their own seemingly parochial interests, ranging from relaxed rules on investment and protection of local industry, to employment issues and recruitment of personnel to the countryside. Second, particularly in the Henan meeting, greatest attention was given by the delegates to Wen's remarks on education, environmental protection and rural policy. In particular, the Henan Vice Governor stressed the need to increase investment in education, claiming that unfairness in education keeps backward provinces down. Third, the government's strategy obviously is to play up the "transparent" and "democratic" nature of this year's NPC sessions. A large number of provincial meetings are open to the press (and poloffs), and in the Henan meeting, national-level NPC staff made a show of marking up Premier Wen's speech with the Vice Governor's comments and suggested revisions, all in front of the cameras.

¶12. (C) Despite the seeming openness of the provincial delegation meetings, their actual utility has varied widely. Discussion in the Zhejiang and Henan meetings appeared spontaneous and free-flowing. Delegates were nevertheless conscious of red-lines, prefacing all remarks with praise for the Premier's report, and limiting their comments to differences in emphasis and implementation, not direction. The Hainan and Liaoning meetings, by contrast, appeared highly scripted. The Hainan Party Secretary dominated all discussion at his meeting, and Liaoning officials never varied from the safe theme of specific economic development projects. The reaction of Chinese reporters has also varied. One Chinese reporter complained bitterly to poloff that the entire Zhejiang meeting was "rigged," with prefectural officials refusing to take her questions. By contrast Chinese (and foreign) reporters clearly reveled in the free-for-all atmosphere of the Henan meeting, where local officials were made available to any and all reporters.

Comment

¶13. (C) Despite a few new wrinkles, the Premier's speech contained no major surprises, much of it having been previewed in the Chinese press over the last couple of weeks. Wen's stay-the-course message on reform is likely a message to critics on the left and right not to expect radical change (see Ref B). At the same time, the increased emphasis on social programs and "harmony" appears designed to ensure stability through this fall, a goal Wen addressed early in his speech by calling for creation of a "good environment and favorable conditions" for the 17th Party Congress. Whatever the leadership's objective, the speech had something for everyone. Nevertheless, such an approach may run the risk of having local officials listen only to those parts of the Premier's message that they want to hear.

RANDT